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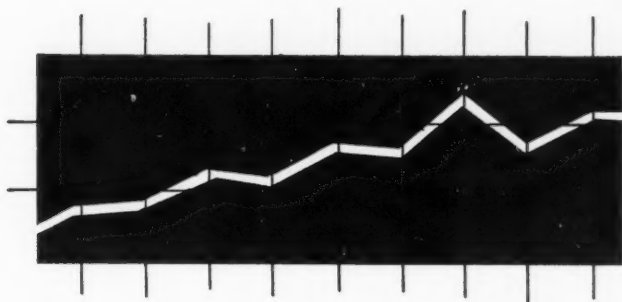
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Public Higher Education Faces the Future

BY LEWIS WEBSTER JONES

A prominent educator discusses the increase of academic energy and initiative stimulated by the present educational crisis.

PUBLIC HIGHER EDUCATION includes a large and varied array of junior colleges, teachers' colleges, municipal and state universities—any institution, in fact, which takes the student beyond high school and which gets the bulk of its support from tax revenues. But the most characteristic American public institutions of high learning are the state and Land-Grant universities, and most of my comments will relate to them, as does my own experience.

The first and most obvious fact is that the role of these public universities is likely to increase, both absolutely and proportionately. Already, they educate more than half the college population. I doubt that the private institutions, with the best will in the world, can expand rapidly enough, or on a large enough scale, to take care of the predicted doubling of college enrollments in the next ten or fifteen years. Some of them prefer not to expand, believing that they are now at their optimum size. An even larger share of the greatly increased educational load must therefore be assumed by the tax-supported universities.

DR. JONES is President of Rutgers, the State University of New Jersey. This article is adapted from an address delivered before the Tenth Annual Barnard Forum, February 8, 1958, the Waldorf-Astoria Hotel, New York.

Is this a disastrous trend? I hope I can reassure you that it will not mean the end of free private enterprise, nor a lowering of educational standards, nor any necessary loss of the freedom of teaching and research. Until eleven years ago, my own experience as student, teacher and administrator was exclusively in private institutions: Reed, Columbia, Brookings, Bennington. When I moved into state universities, first in Arkansas and then in New Jersey, I did not find myself in a different academic world.

The important question to ask about a university is not "Where does it get its money?", but "How good is it?" There are strong and weak examples in both the public and the private categories; and the standards of excellence are the same for both. American universities attract students from all over the world. Among the foremost are California, Michigan, Wisconsin, Minnesota and other state universities, as well as Harvard, Yale, Princeton and smaller private institutions. As other nations democratize their educational systems, or begin the attack on illiteracy, it is to American public education that they most often look for a model.

WHAT IS A "PUBLIC" INSTITUTION?

Yet the categories "public" and "private" are neither clear-cut nor of decisive importance as they apply to American higher education. In their origins, many of our outstanding private colleges received public support. Harvard is an example. Many state uni-

versities, like the University of North Carolina, were established in part by private bequests. Cornell is hard to classify, since it is a private university which is also the Land-Grant College of the State of New York. M.I.T. is another Land-Grant institution. So is Rutgers, which is also the eighth oldest of the colonial colleges, and the state university of New Jersey. All colleges and universities are chartered by government and enjoy tax exemption.

Support. In their financial support, the differences are again a matter of degree. Public as well as private universities depend in part on gifts and endowments. Almost all public institutions charge tuition. Government and industrial research contracts go to public or private universities without distinction. And every institution of higher learning in the country is finding it increasingly difficult to get enough financial support to do the enormously important, vastly expanded job which they must collectively tackle in the immediate future.

Control. Nor do the private and public institutions differ markedly in the matter of control. I remember the heartfelt remark of the president of a church-supported college, who said to me: "You state university presidents think you have your troubles, dealing with trustees who claim to represent The People. How would you like to deal with a board which claims to represent God?"

The fact is that all our educational institutions are controlled, sometimes wisely, sometimes not so wisely, by lay boards, on which businessmen and lawyers predominate. And all must also try to explain themselves to, and seek support from, a wider public. This is the American system, and I think it has much to be said for it as a democratic instrument.

We may look wistfully at Oxford and Cambridge, and the other British Universities, receiving the bulk of their sup-

port from government through the University Grants Committee. They are subject to none of the direct public control exercised in this country. They are free from the constant money-grubbing which burdens the lives of American college and university presidents. As no such system is likely to be adopted here, every American university, whether public or private, must constantly strive to explain its aims, and to educate the general public to some extent. It must withstand distorting pressures and strengthen and defend the freedom of teaching and research which is necessary to the unique and essential functions of universities in American civilization.

I don't think it is realistic or useful, therefore, to put public and private higher education in sharply separate categories; and I deplore any disposition to put them in opposite or competing camps.

COMMON PROBLEMS

The strength of our system is in its pluralism, its many centers of initiative. Its rich variety offers opportunity to students of differing abilities and interests. Anyone with a good idea, some support and a lot of courage can start a new college. The system is adapted to local and special, as well as to national and general needs.

The important thing to recognize is that all universities—public, private or mixed—face common problems and a common task. These are so urgent and so important that they call for the most determined, courageous and imaginatively cooperative efforts of everyone engaged in higher education.

We are, indeed, all in the same rather leaky boat. It will not be enough merely to plug up the leaks and pull harder on the oars. If we are to begin to meet the demands of the fundamental revolution which is taking place throughout the world, an industrial and technological revolution of unprecedented scale and scope, we need to build a

much larger boat and equip it with something like nuclear power.

The Struggle for Funds. The most obviously urgent problem is money. Even fifty years ago, Henry Adams wrote: "The whole problem of education is its cost in money." It isn't the whole problem, but it dwarfs all others just now. Higher education is struggling with three forms of inflation: the rising level of prices, rising student enrollments, and the rapid growth in knowledge. I see no end to any of them. All require money, much more money than we are now spending or are accustomed to spend on higher education. We need a major breakthrough to an entirely new level of financial support.

The struggle for money from traditional sources is now so pressing that I suspect it may account for a certain antagonism towards public education which I have occasionally detected, especially along the Eastern seaboard. Private colleges, once reasonably well supported by endowments and fees, and with relatively stable student populations, are finding the going increasingly tough. Some of them resent the competition of the public institutions for private and corporate gifts. Some are looking for a share in tax support—an ambivalent attitude for any who insist that private education is the last stronghold of private enterprise. If it is any consolation to hard-pressed administrators of private colleges, I can assure them that the going is pretty tough for the public universities, too.

State governments have had to spend more and more on highways, welfare programs, state aid to municipalities, and the like. The bulge in school enrollments has already hit them hard. Their tax sources have not kept pace with growing needs, and the requirements of the Federal budget have increased drastically. In my more discouraged moments, I think we are exhausting our efforts in building larger

and larger highways, crammed with larger and larger cars, but leading only to larger and larger mental hospitals. In any case, the proportion of state revenues available for higher education has fallen, rather than risen, and I know of few state universities which are not feeling the pinch. Almost all are inadequately housed and staffed, even for today's relatively manageable enrollments.

Most states and municipalities have faced the problem of the coming expansion, at least to the extent of estimating the needs for new buildings and staff during the next decade. But there is danger that they will wait until would-be students actually find the doors of the state universities closed to them before the necessary revenues will be voted.

It is not the easiest thing in the world to educate the general public to the needs of higher education. Many otherwise intelligent people seem to think of it as a natural good, even a natural right, without costs of production. Legislators have no difficulty in understanding that the highway programs need more money, as population grows and costs rise. But some of them are shocked when an academic building, postponed for several years, has also gone up in price, or is already inadequate because of increased enrollments. Small classes come under indignant scrutiny; but it is impossible to run an honors program, or a graduate program, without some individual instruction. Higher education is expensive, and it gets more expensive the higher it goes.

Economy and Waste. Universities must of course do all they can to make the professor go further, through such devices as TV, large lectures with sectional discussion groups, adequate secretarial help, and so on. Economies can be made through fuller use of facilities, better scheduling, and perhaps some revision of the academic year. Both the quality and the efficiency of education might be improved by putting more

responsibility on the student to learn, and treating him less like a schoolboy. But even the brightest and most mature students must have their work individually criticized and corrected and explained. Most of the possible time-saving devices are already being discussed and tried. I am continually impressed with the ingenuity of faculty members in making do with less, and stretching the academic dollar to its limits. The hard fact remains that buildings, equipment and instruction are expensive, and likely to get more rather than less so. Economies which result in bad educational practices can be the most expensive and wasteful of all devices.

THE CHALLENGE OF RUSSIA

The real challenge of Soviet Communism is this: can capitalist America allocate the necessary resources to education and research? Can we find ways to channel a large enough stream of our vast wealth into an investment in education and trained intelligence—the only possible basis for survival in the modern world?

At present, we fall far short of doing so. We spend $\frac{3}{4}$ of 1% of our national income on all forms of higher education; yet many people are appalled and indignant at the cost. It obviously would not break us to spend 2% or considerably more. The Russians are said to be spending 7% of their national income. They can control the proportion of the national resources devoted to education and research by a decision at the top. We have no such easy means of changing the direction of our own national effort. Thus our admirably productive system results in some curious choices.

We spend millions to educate people in the value of cigarette smoking, though the benefits of this form of consumption are at best dubious. Millions are available to persuade people to buy new cars, and this educational campaign has been so successful that

we could put the entire population on the front seats of the cars we already have. Is this really what we want and need? These highly effective methods of channeling purchasing power and productive effort won't do us much good if we fall behind in the competition for knowledge.

We should be grateful to the Russians for waking us up to our own educational shortcomings. It is ironical that they have done it by offering us severe competition: a good old capitalist motivation. It is ironical, too, that Russian successes in scientific accomplishment are based on the use of another time-honored American practice: that of giving pay incentives to call forth the needed emphasis. We all know by this time that Soviet professors are honored and highly paid, and that able students have their way eased by adequate support.

Russia has also adopted and acted upon the conviction which inspired the founders of this republic, and many generations of Americans since: namely, that national strength and progress depend on a strong system of universal education. We have faltered in our own allegiance to these convictions in recent years, neglecting our schools, and failing to provide adequately for higher education and basic research.

The idea that these things are of vital importance is not new, nor did the Russians invent it. Washington, Jefferson, John Quincy Adams were inspired by the vision of a great new nation of free men, and by the positive promise for human betterment in the uses of science. More recently, the negative and dangerous results of neglecting knowledge in the modern situation was stated by Alfred North Whitehead, in England in 1916. Here are his words:

In the conditions of modern life the rule is absolute; the race which does not value trained intelligence is doomed. Not all your heroism, not all your social charm, not all your wit, not all your

victories on land or at sea, can move back the finger of fate. Today we maintain ourselves. Tomorrow science will have moved forward yet one more step, and there will be no appeal from the judgment which will be pronounced on the uneducated.

The United States is now in the mood, perhaps, to heed Whitehead's warning. I hope we shall not take our cue only from the Russians, and launch on a sort of Olympic obstacle race for scientific supremacy. It is absolutely essential that we maintain our military strength. But this use of science is a negative, if necessary, one. Our own educational tradition is strong and positive. We need to reassert and re-examine it, and act upon it decisively.

OUR EDUCATIONAL IDEALS

Two main themes have characterized American public education from the beginning. One is to use knowledge for the development of national strength. Our forefathers saw clearly that the new and struggling democracy could not survive without an educated citizenry, and that the promise of this great continent could only be realized by the application of science and intelligence to the ordinary productive occupations. The second theme is the equality of individual opportunity.

The Land-Grant colleges and state universities are American inventions expressing both these national purposes. They were founded to open academic doors to the new scientific knowledge, and to make its results available for the improvement of agriculture, engineering and other practical pursuits, while continuing to stress the traditional liberal arts. And they opened the doors of educational opportunity to all who could use it.

The present mood of national breast-beating should not blind us to the fact that American higher education, with all its defects, has done a magnificent job. No other country offers a college education to so large a proportion of its young people. The investment in

knowledge and research has paid off a thousand-fold in contributing to our national strength and well-being. To take only one example—agriculture: the productivity of American farms is so great that we need only 12% of our people to grow the food and fiber for all the rest, and our main problem is that we produce surpluses. These are some of the positive achievements which inspire admiration and imitation in other parts of the world, especially in the so-called underdeveloped regions where our Land-Grant college people are giving technical aid.

Strength and Opportunity. The two goals of national strength and equal opportunity are, in our fortunate country, aspects of the same democratic aspiration. They are still the proper guides to national educational policy today. They require only a stronger affirmation, and certain changes of emphasis to meet contemporary conditions.

First, we must raise our educational sights. High school is no longer severely limited. And the staffing of our complex economy requires an increasing proportion of highly educated people. Both these considerations are likely to put more and more pressure on the public institutions. I think many people are confused because they tend to think of college only in terms of individual opportunity. Higher education is thought of as a luxury, which can be left to the ordinary market demand of those who can pay for it. Perhaps the over-publicized and quite distorted picture of the rah-rah aspects of college life have contributed to this view.

Who Should Pay? Why, then, shouldn't the students, or their families, pay the full cost of an education which brings such great advantages in earning power, social status, and the enrichment of personal lives? Another proposal is that the students should buy their own education on the prevalent consume-

now-pay-later plan, through the provision of substantial loan funds. The notion that students and their families could pay the full costs of higher education is, I think, an illusion. A recent report of the Office of Education indicates that nearly half the students now in college come from five-member families whose total income is under \$5,000. Even families with twice this income find it hard enough to keep one child in college. How many New Yorkers would be able to give their children a college education, without the opportunity afforded by the excellent City Colleges?

Still another idea which seems widespread is that any industrious and determined student can work his way through college, without loss of academic accomplishment, and with positive gains in character development.

This idea finds little endorsement among experienced college teachers. It is true that many students can and do usefully earn something while learning. But very few can earn enough to support themselves entirely. If the economic pressure is too great, the losses and failures are serious. The important business of learning must come first.

There is no doubt some merit in the student loan plan, but it cannot be regarded as a complete solution. Few young people could afford to assume such a burden of debt, at an age when they are ready to marry and start raising their own families.

An attempt to solve the financial problem by charging the full cost of higher education to the recipients would sharply reduce the number of college students, and move us far away from the provision of equal opportunity we profess to value. The loss to the national strength would be catastrophic.

Every recent commission on higher education has deplored the fact that a significant proportion of our ablest young people do not now attend college. Obviously, we cannot afford to cut down the numbers still further. Ways

must be found to induce all who have the ability to get as much education as they can use. This requires public support for higher education more nearly on the scale which we have been accustomed to think of as applying to the high schools. Higher education is not a luxury which can safely be left to individual choice backed by ability to pay. The equal opportunity for the development of the powers of all our young people is at the same time a matter of justice, and a national necessity.

TEACHERS FOR THE FUTURE

The need for increased support for higher education does not stop at the undergraduate level. Apart from money, the most crucial shortage in the immediate future will be the shortage of qualified college teachers. Graduate schools must be expanded, and fellowships provided. Promising students ought to be able to give full time to graduate study, so that they can earn the Ph.D. in two or three years of concentrated work, instead of struggling along for perhaps ten years in depressed and depressing poverty, as so many of them must do today.

I do not think I need add my voice to the chorus which has been proclaiming the need for certain changes of emphasis in the college curriculum. Obviously, we need to reinstate science as one of the important liberal studies, and stop accepting scientific illiteracy with complacency. We need to step up the study of foreign languages and cultures. It is hard to explain or justify the almost complete neglect of geography, which most American students don't encounter beyond the seventh grade. Our graduate schools doubtless require some re-organization, and are currently engaged in some searching self-examination with the purposes of attracting and holding first-class students, and educating them for the kind of creative scholarship which must be the foundation of good college teaching.

Not by Science Alone. The present alarm about Russian scientific achievements will not, I hope and believe, throw us off base. We need businessmen, lawyers, artists, actors and a host of other competent people, as well as scientists and linguists. We can surely afford to give our students the luxury of choice, so that each may contribute in his own way by developing his own particular talents.

The kind of national strength we value requires the continued cultivation of the humanities and the arts as well as the sciences. The arts are the most lasting products of any civilization. They are universal languages, speaking through the ages, and directly communicable to all peoples. There are, however, no pressure groups behind them, no public clamor for their emphasis. It is the responsibility of the universities to insist that they receive proper support. It is encouraging that the great state universities of the West, the Middle West and the South are meeting this responsibility admirably. In many respects they are ahead of the

older institutions in the East in their provision for the arts. (I recommend that any sceptical Easterner take a tour of their campuses to see for himself.)

A Note of Optimism. In spite of formidable problems, I am optimistic about the future of higher education in this country. I do not share the gloomy forebodings based on the belief that increased numbers will mean a lowering of quality. On the contrary, I believe that the pressures of necessity will oblige us to undertake some educational reforms long overdue, long vainly advocated by educators crying in a wilderness of public apathy and academic inertia. Apathy has been jolted into concern, and the climate favors experiment, innovation and a general stepping up of academic energy and initiative.

The crisis is extremely serious. Education is the key to national survival. The task ahead is one which will require the cooperative efforts of all American colleges and universities, both public and private. I am confident that the public institutions are ready, willing and able to do their part.

NOTES FROM CANADA

Right Under Your Feet from Red Water to Port Credit

MOST MICHIGAN RESIDENTS who are curious about our relations with Canada are aware that Canadian oil from wells in Saskatchewan flows under a good portion of our state on its way to Port Credit, near Toronto. The Interprovincial Pipe Line Company of Toronto has answered some of our questions about this foreign artery that enters the United States in North Dakota. It reaches Michigan at the Montreal River, just north of Ironwood, runs east in the Upper Peninsula to the Gould City pumping station, and crosses the Straits of Mackinac. Once through another pumping station at Indian River, it continues to Bay City, recrossing the boundary under the St. Clair River near Port Huron, to reenter Canada at Sarnia. That portion of the line located within the United States is owned and operated by a subsidiary, Lakehead Pipe Line Company, Inc.

How about the international complications? The Toronto firm informs us that they are not serious:

We have had, of course, to make customs arrangements for oil consigned to United States points to be properly imported into the United States, and for oil consigned through the United States for re-entry into Canada to be shipped in bond through the United States. One rather interesting feature from the legal point of view is that while there are no formal requirements in the United States as to crossing the international boundary if such a crossing takes place on land, for instance at Neche, North Dakota, nevertheless if the crossing takes place under water such as in the St. Clair River a presidential permit is required.

The Interstate Commerce Commission has jurisdiction over the portion of the line located in this country, while in Canada this responsibility rests with the Board of Transport Commissioners. Within this state the Michigan Public Service Commission has authority over certain phases of the operation.

We are grateful to R. B. Burgess, General Counsel for the Interprovincial Pipe Line Company, for the information on which this item is based.

Subscription Price — Four Beaver Skins

AS A NON-PROFIT PUBLICATION we may be guilty of bad taste in plugging a commercial magazine. In this case enthusiasm outruns discretion, for there has come our way a periodical of such distinction and interest that we want to call it to our readers' attention.

The Beaver, Magazine of the North, is a quarterly published, according to its masthead, "by the Governor and Company of Adventurers of England Trading into Hudson's Bay, commonly known as the Hudson's Bay Company." It is edited at Hudson's Bay House, Winnipeg, Manitoba, and may be had for \$2 a year. The authoritative articles, enhanced by excellent and unusual photography, cover such fields as exploration and settlement, diplomacy, public health, native art, botany, geology, and the history of three hundred strenuous years of trade. Is this magazine too much off the beaten track for Michigan readers? An article, "Was This LaSalle's 'Griffin'?" (Winter, 1955) was the source of an illuminating footnote in the March *Business Topics*.

A.C.G.

Who pays for protective tariff?

What does it actually cost?

Who benefits from it?

Michigan: Foreign Trade and Recession

By John M. Hunter

INTERNATIONAL TRADE POLICY is currently undergoing its biennial or triennial "agonizing reappraisal" because of the expiration of the Reciprocal Trade Agreements Act.¹ This assumes particular importance just now because the Administration has proposed some radical changes and because it is habitual to appraise trade policy carefully in times of economic difficulties. I will review briefly Michigan's stake in international trade in relation to the general question and with some special consideration of trade policy in a recession.

There are no data which give an adequate description of the importance of trade to any geographical subdivision of the United States. Some estimates have been made in the past,² and it is largely on these that the following extremely crude ones are based. In 1957, U. S. exports originating in Michigan probably amounted to \$1.9 to \$2.8 billion (10 to 15 percent of the total U. S. merchandise exports). About \$2.1 to

\$2.6 billion of the \$17 billion of personal income in Michigan in 1957 was derived from exports (12 to 15 percent). It is estimated that one out of seven in the labor force in the state depends for his income on the export business of Michigan firms. Imports are even more difficult to estimate. Probably they amounted to something in the neighborhood of \$600 million in 1957. Even though the data be poor, there is no question but that international trade is of great significance to the state and to its citizens whether they are directly engaged in it or not.

Major Interest Groups. The major groups interested in foreign trade in Michigan are 1) exporters and those contributing to products ultimately exported, 2) importers and those using imported components or raw materials in production, 3) producers competing with imports from abroad, and 4) consumers. This last group includes everyone, of course, although some may be included in one or more of the other groups.

Probably about half of Michigan exports come from the following: motor vehicles and equipment, iron and steel foundries, metal working machinery, furniture and fixtures, general industrial machinery, metal stampings, hand tools and hardware, refrigeration machinery, industrial chemicals, steel works and rolling mills, rubber products, internal combustion engines. Another important group includes non-ferrous foundries and rolling and drawing mills;

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¹This is in fact one of a rather long series of amendments to our basic law relating to tariffs, The Tariff Act of 1930 (Smoot-Hawley).

²See John M. Hunter and Donald A. Moore, *Michigan and Foreign Trade*, Citizenship Education Series 1, Governmental Research Bureau, Michigan State University, 1953. This pamphlet is still available and is, I think, the last systematic effort to analyze Michigan's interest in international trade. This includes considerably more detail and is more comprehensive than the present article.

fabricated wire products; apparel and related products; heating and plumbing equipment; converted paper products; electrical industrial apparatus; drugs and medicines; valves and fittings; tractors and farm machinery; canned, preserved, and frozen food products; and grain-mill products. Even agriculture probably exports about ten percent of the value of its total product.

Although total imports for the U. S. are extremely small relative to gross national product (about three percent in 1957), nearly all industrial processes depend in some way upon imported materials. A list of such critical materials includes: cadmium flue dust, cobalt, tin, antimony ore, industrial diamonds, lac and shellac, crude rubber, asbestos, nickel and alloys, zinc, tungsten ore and concentrates, manganese ore, lead, aluminum, mica, newsprint, wood pulp, arabic gum, casein, lactarene, etc. While the technical significance of most of these is lost to most, the same point can be made by noting that a modern automobile contains some 300 or more imported items.

Producers (and those associated with these industries) competing with imports have some special problems, and it is by this group that the greatest demands for "protection" are made. In Michigan, the groups most affected are probably the iron mines of the Upper Peninsula, to some extent the chemical industry, certain portions of agriculture for special reasons, photographic equipment, and petroleum. The automobile industry is showing increasing concern over the importation of small foreign cars. Michigan, however, has few of the *causes célèbres*, e.g. glassware, chinaware, bicycles, watches, wool, massive electrical equipment.³ Exclu-

sion of foreign goods by various protective devices would ensure a larger share of the U. S. market for domestic producers with the presumption of increased sales and profits.

Consumers as consumers have the most neglected interest in foreign trade. They ultimately pay the price of effective protection in the form of higher prices (for it is low foreign prices *against* which protection is designed) for purchased articles than would otherwise be necessary.

Major Issue of Trade Policy. Although the controversy takes many forms and tends to get lost in the raft of justifications of one point of view and another, the issue is basically clear-cut: protection versus freer trade. The controversy is almost ageless and in the United States can be dated from the days of Alexander Hamilton. And we seem no closer to concluding it! In the last decade, though, trade policy for the first time has been considered as a major part of our long-range foreign policy: part of the current heated controversy is the desire of the Administration to commit the United States to the principle of freer trade over several years. This is to be a corner stone of our foreign economic policy—a major weapon in the cold war.

The arguments are usually centered around the question of the tariff, but it is well to remember that other protectionist devices are available to and used by the United States: 1) complicated customs procedures with uncertain results, 2) the "Buy American" Act, 3) escape clauses in the Reciprocal Trade Amendments and 4) import quotas.⁴

do well to request the publications of the American Tariff League, 19 West 44 Street, New York 36, and of the Committee for a National Trade Policy, 1025 Connecticut Avenue, N.W., Washington 6. These publications are called *Topics and Trade Talk*, respectively.

⁴For an explanation of these and their effects, see Bidwell, *op. cit.* In many other countries, exchange control should be added to the list of tools available for accomplishing protectionist objectives.

³The interested reader is referred to Percy W. Bidwell, *What the Tariff Means to American Industries*, (New York: Harper and Brothers, 1956). A frankly partisan protectionist view by a spokesman for the chemical industry is found in Lewis E. Lloyd, *Tariffs: The Case for Protection*, (New York: the Devin-Adair Company, 1955). Persons with a continuing interest in this continuing controversy would

The controversy actually rages over a very limited portion of our imports. As can be seen in Table I, bicycles, glassware, watches, etc. constitute a small portion of the total.

TABLE I

Imports by Commodity Groups, U.S., 1957

GROUP	TOTAL (Millions)	PERCENT
Industrial Supplies and Materials	\$ 7,483	55.9
Food, Beverages, Medicines	3,342	25.0
Farm Equipment and Materials	477	3.6
Finished Consumer Goods, Non-Food ..	1,525	11.4
Capital Equipment, Non-Farm	331	2.5
Other	225	1.7
	<hr/> \$13,383	

Source: Survey of Current Business, January, 1958. Extrapolations and other liberties with the data are my own.

Trade Policy in Periods of Economic Stress. It is quite understandable that in periods of unemployment we should turn for relief to the international trade arrangements. It is an obvious policy conclusion to exclude foreign-made shirts when U. S. shirtmakers are out of work. ("Obvious policy conclusions" are not necessarily either right or proper.) It appears that U. S. shirtmakers can "export" their unemployment to foreign shirtmakers by the imposition of an appropriately high tariff which would exclude previously imported shirts. Competition, it seems, is most tolerable when the going is good and the total market is expanding. When things get rough, it is natural for industries (and their associated laborers) to try to reduce that competition—protection is a legal and, at least in some quarters, a very respectable means of doing this.

EVALUATION OF PROTECTION

It appears that protection of domestic producers offers a means of exporting unemployment, but a little reflection indicates that this is not the case. In the first place, the United States is a major economic power and most of the economies of the free world are embarrassingly dependent on the good health of its economy. When we suffer economic difficulties, many of these economies suffer even more severely.⁵ Thus, already in severe difficulties, any attempt on our part to alleviate our own problems by increasing theirs would most certainly be met with reciprocal protection devices.⁶

Even if we were to assume that reciprocal protection would not be forthcoming, the results would not be those sought. The reasons are frequently overlooked. We are an exporting nation as well and foreigners buy our goods with dollars 1) loaned or given publicly or privately, 2) from the sale of newly mined gold, 3) accumulated from earlier transactions, and most important, 4) earned from their export sales to us. If we, in an effort to export unemployment, stop buying shirts from abroad, this will reduce foreign dollar earnings and will therefore reduce foreign capacity to buy from our export industries. Thus, unless foreigners deplete their reserves, increase their gold mining, or unless we increase our foreign gifts or loans (none of which is an inexhaustible source of dollars), a roughly equivalent amount of unemployment will appear in the export industries. These latter industries, incidentally, are generally those which pay the highest wages while those requiring

⁵Most countries are much more dependent on their exports and imports than are we. Halving our imports would do us little harm, especially if this was mostly inventory readjustment, but this would wipe out an enormous percentage of the governmental revenues of raw materials producing countries, reduce their gross national products disastrously, etc.

⁶This was precisely our experience with the Smoot-Hawley Tariff of 1930.

protection are frequently low-wage industries. This does not deny that the shirt makers would have benefited; but the automobile industry (a prime example of an export industry) would have lost.

Because trade policy has become so inextricably mixed with foreign economic policy, it is well to explore protection in that light very briefly. I assume that there is some amount of dollars which we think foreigners must be able to earn or otherwise receive each year in order to maintain proper allegiance to the West. (This is a debatable assumption—but not here.) Ignoring the fact that our economic difficulties will be reflected manifold in their economies, increasing our protection will depress foreign economies and reduce dollar earnings. If the minimum above has already been reached, then protection will necessitate an increase in foreign aid. If this aid comes from taxes, then the increase in taxes necessary will further reduce the domestic demand for U. S. goods and contribute further to the country's economic ills.

PROTECTION: AN EXAMPLE

In spite of its appeal, protection does not now seem to be a wise anti-cyclical device. The effects of an increased tariff can perhaps best be illustrated with an example. Its effects on the groups enumerated above will be analyzed.⁷

Suppose 200,000 units of some item are sold annually at \$1 each with the market shared equally by foreign and domestic producers. Then let a 10 cents per unit tariff be imposed which results in an eight cent per unit increase in selling price. Behind this wall of protection (foreigners *only* must pay the ten cents to land the goods in the U. S.), domestic producers expand production and sales

to 150,000 units and leave 50,000 units for foreign producers. The effects on the domestic industry are clear and salutary. Incomes, employment, and probably profits will have increased because of the expanded output and because of the higher price now charged. Its total revenues will expand from \$100,000 to \$162,000. The U. S. Treasury will also have pocketed \$5,000 in additional revenues (50,000 units at ten cents duty each).

The foreign producers' gross will have been reduced from \$100,000 to \$49,000 (50,000 x \$1.08 less \$5,000 in duties). This loss of \$51,000 in dollar earnings clearly will reduce their ability to buy here.

There is no clear effect on U. S. producers employing imported components or raw materials, and it remains to consider the effects of this upon the consumer. Prior to the tariff, consumers spent \$200,000 for 200,000 units of this product. After the tariff has been imposed, if they continue to buy the same amount, the cost will have increased to \$216,000 or an increase of \$16,000. As consumers, they have gained nothing, and in fact have lost through these higher prices. There exists the possibility, too, that the industry for whose goods they otherwise would have spent the \$16,000 will suffer this reduction in its demand, employment, etc.

This example should make clear that protection amounts to a subsidy for the favored industry at the expense, directly or indirectly, of its consumer purchasers, export industries in the same country, and foreign competitors. It is not the purpose to examine here the desirability of subsidizing particular industries (e.g. for purposes of national defense.) If this is deemed desirable, there is much to be said for doing it explicitly rather than employing traditional protectionist devices whose effects are hidden and about which thinking is so confused.

⁷This is based on a more complex version in Hunter and Moore, *op. cit.*

*What are the criteria of organizational structure?
Here is a thoughtful consideration of the cohesion
and direction a business can provide its personnel.*

The Nature of Organization

By Guy S. Peppiatt

HOW ARE WE to define *organization*? Webster says, "Organization is a group of persons united for some purpose," and, "A thing made up of related parts, each having a special duty." By amalgamating these two definitions we can arrive at a satisfactory statement of what organization is. I submit the following as a basic description of a business organization: "A group of people, each of whom has a special duty, joined together for the common purpose of conducting a successful and profitable undertaking."

This concept is as applicable to the giant corporation with employment in the hundreds of thousands as it is to the corner grocery with a handful of people. At first it may appear unrealistic to consider the man on the machine in a large operation, or even the counter man in a grocery store, as a part of organization as such. However, we must concede that he is a member of a group and, as an individual, is vitally interested in job security, adequate pay, good working conditions, etc., all of which are possible only if the business is successful and profitable. Furthermore, each individual is, or cer-

tainly should be, assigned specific duties which he performs and for which he is responsible. The man on the machine is assigned a particular tool or a machine with which to work, and is held accountable for the quantity and quality of the parts he produces, just as the counter man has particular tasks to perform in a satisfactory manner.

To me, the most important part of the concept of organization is that it means *people*; people as living entities, each equipped with certain talents and abilities, each motivated in his own way by very human desires and ambitions. To think of organization only in terms of its trappings, such as the organization chart with its nicely proportioned squares, carefully drawn lines, the accurately prepared job descriptions, etc., is to think too narrowly, ignoring the real meaning. The organization chart and job content description are vital and necessary; their careful, thoughtful preparation is accepted as a fundamental requirement of good management, but they are only instruments and not ends in themselves. Moreover, the mechanical manifestations of organization, such as the chart and job descriptions, are tools of management to be used for dealing with people. The function of these tools is to provide the means of motivating people and of coordinating them into a cohesive group working toward common goals.

MR. PEPIATT is President of Federal-Mogul Bower Bearings, Inc. The article is based upon an address before the Automotive Sales Management Seminar held at MSU May 27-28, 1958.

TRUE AND FAITHFUL REFLECTION

Now let us explore some specific considerations. My personal experience can be drawn upon at this point.

First of all, I have developed a philosophy that the form of organization should be a true and faithful reflection of the needs and wishes of the chief executive, provided, of course, it conforms to certain basic, immutable rules, which we will shortly discuss in detail. The individual who is charged with the overall responsibility should consider his own personal requirements, strength, shortcomings and wishes, and then proceed to erect an organization to meet those needs—to capitalize on strength and minimize weakness. Since we as individuals differ in these respects, it follows that the form and content of organization likewise will vary. In other words, there is no one rigid, predetermined form of organization for a given situation, let alone one to cover the multitude of variables prevailing in today's business activity. One individual, for example, may elect to operate a multiple location company on a decentralized basis, with a high degree of authority assigned to the local managers; another may decide for good reason to keep more or less complete authority at the central office. We find examples of each type in operation today.

One company with which I am acquainted operates a number of plants from coast to coast. With the guidance of an industrial management firm, it is erecting a strong central office control with a functional management plan requiring a general manager of sales, a general manager of manufacturing, etc. From observation, I believe it is sound and well-suited to the management and the problems involved. On the other hand, in the company with which I am directly connected, we operate on a completely decentralized plan, with seven operating divisions. Each division is a complete unit in itself

with a Sales Manager, a Manufacturing Manager, a Research Director, a Controller, an Industrial Relations Manager, etc., all reporting to the local General Manager. I firmly believe that, at this time, this is the most efficient and productive organization with which I personally can operate. Another individual following me tomorrow could conceivably operate as well, if not better, under another form more to his personal liking and ability.

In my own view, then, the first step in determining the form of organization is for the chief executive to take stock of himself and carefully consider what he personally needs and wants for the successful operation of his business. A few hours of feet-on-the-desk contemplation in this area can be productive. Others can counsel and advise, but in the final analysis it is not only the prerogative but the responsibility of the chief executive to make this decision: he must, if the organization is to be his own effective tool of management. I contend this philosophy is neither authoritarian nor autocratic, but a practical down-to-earth approach. Others in the organization can and should participate at the proper time and place, as I shall try to demonstrate later.

Secondly, an organization should be custom-made to fit two factors: available personnel and the physical characteristics of the business itself. It is safe to say that no organization today has the perfect man in every supervisory position. Each has his own peculiar strengths and weaknesses. It is a function of an organization structure to capitalize on strength and to alleviate the disadvantages of any weakness.

To illustrate, let us assume we have a Sales Manager who is aggressive, competent, hardworking, and has a particular flair for personal face-to-face selling, but who lacks aptitude for price setting. At the same time, we have an inside man, let us say an office manager, with a second sense as to pricing procedure, but no desire or ability for

customer contact. The obvious thing to do is to establish an organization structure that keeps the Sales Manager on customer contacts and assigns the pricing function to the inside man.

If we are concerned with only one location, the organization structure is different from that required if multiple locations are involved. Furthermore, if all locations are engaged in the same activity, the problem is different from the one involved in the case of geographically scattered units engaged in essentially unrelated activities. For instance, if a company has a number of plants around the country making identically the same product, the form of organization could, and probably would, differ from that used in a company making everything from guns to butter in different locations.

Our organization then, should be custom-made according to the capacity of the available personnel and the characteristics of the operation. Finally, its structure should be a flexible, living one, responsive to changing personnel and economic conditions. Returning to the illustration of our sales manager and the inside pricing man, let us assume that, through a turn of events, we lose our office manager, who had a particular and effective ability in pricing. We proceed to replace him from the outside with a well-qualified office manager, but one who is new to our industry. He could hardly be trusted with the critical pricing function, at least at the start. A reassignment of the responsibility is obviously indicated. Maybe it would go to the sales manager, with built-in safeguards and balances. Possibly we would take it as our personal responsibility. In either case, a change in duties, that is a change in organization, takes place.

Again let us refer to a previously mentioned illustration, namely the company which, with outside advice, is establishing a strong central office control. For a long part of its successful history the company had two opera-

tions, one serving the automobile manufacturers, and the other the building industry. The manufacturing plants were close together in the same city. As expansion took place, either through newly constructed plants in strategic marketing areas or acquisition by merger, it became clear that the old form of organization would no longer suffice. Additional personnel was required, a new sales organization was indicated, and a high degree of manufacturing coordination was desirable. Hence flexibility of organization was paramount, and modification is and will continue to be made by the management from time to time as the need is indicated, and as the individuals of the management team develop. Thus our organization must be alertly responsive to personnel development and turnover and to the kaleidoscopic changes of the economy in which we operate.

SETTING UP AN ORGANIZATION

With this background we are ready to consider in detail some of the rules and procedures involved in establishing an organization. Irrespective of the particular type of organization the chief executive elects to use, certain basic requirements prevail. Among the most important, in my opinion, are the following four, given in the order in which they should be considered.

Establishment of Responsibility. First of all, we must clearly describe, delineate, and establish in detail the areas and elements of responsibility. To do so accurately and effectively requires thoughtful attention and study. It must be done at the initiative of the chief executive and it must be guided, and in part done, by him. The size of the operation and the time element will, of course, determine the extent of his personal participation.

The following procedure is a workable approach to an organizing problem. My practice is first to list at the top of a page of blank paper each

function of the operation as I see it. By way of illustration, let us assume there is a page for each of the following activities: sales, purchasing, inventory control, the shop, the office, and employee relations. Then I proceed to list the activities to be performed under each classification. This is not done all at once, but over a period of time, as thoughts occur to me, as I see the actual operation, or as I make inquiry. No attempt is made at this time to list the activities in order of importance. Finally, when the activities are catalogued, they can be grouped in a logical sequence under each function. Under sales, we might find such things as customer contact, selection and training of salesmen, advertising, cataloguing, etc. The final list will probably be partially a historical reconstruction of the way things have been done in the past and partially an incorporation of changes which appear desirable. The result is a compilation of job descriptions, or definitions of responsibility.

Delegation of Authority. The second requirement is the formal, forthright, courageous, unequivocal delegation of authority. Easy as this sounds, it really represents one of the most difficult aspects of organization. Some writer has aptly said that a real test of management is whether the manager can sit back and watch his organization grow by making mistakes. Our first mechanical step in delegation is to put an individual's name and title on each of the sheets upon which we have listed the responsibilities for each function of the business. Thus, we will have Mr. A as Sales Manager, Mr. B as Inventory Control Manager, Mr. C as Shop Foreman, and so on. After having committed ourselves mentally to specific men, we must again review each list of duties to see if any modification or transfer of responsibility is indicated by reason of personal qualifications, or lack thereof. Remember our Sales Manager and the

inside pricing man. If there are any functions which the chief executive feels compelled to fill, either temporarily or permanently, his name should go on the appropriate sheet.

We now have the material necessary for the basic organization chart and job description. When issued and distributed, it constitutes a formal delegation of authority. This same procedure can be used to extend the chart and job descriptions down through the rest of the organization. We can say to each individual reporting to us, "Here are the responsibilities I have given to you. Now, you take them, break them up, and pass them down the line by using the same method I did."

Each of the men whom we have selected to head the departments of our business, within the limits of the overall plan we have adopted, should have the same flexibility in organizing his function as we had in our initial approach. This procedure accomplishes two things: it gives our managers a feeling of partnership, and it permits them to custom-fit the form of organization to the talent and ability of the personnel whom they should and probably do know better than we do. If any one department is large enough to warrant it, each of our managers can in turn make use of this same procedure. The final result will then be an organization structure custom-made throughout. It will be a composite of many people's thoughtful planning, and it will escape the danger and the stigma of autocracy and one-man domination. It is now a simple matter to put this material together in the form of a chart and job assignment manual in complete detail.

Setting Standards. After having defined responsibility and delegated authority, certainly it seems only fair that we should establish some standards of performance. This is our third requirement: to give each man, insofar as possible, something against which

both he and his superiors can measure his performance. Space does not permit covering this area in detail, but such things as sales quota and shop standards suggest themselves. In this connection, I feel it is extremely important to approach this activity on a partnership basis. I know from experience that the shop foreman, or sales manager, is going to be a much better member of the organization team if he has had a hand in setting his own standard than if it has been arbitrarily handed to him.

Let us suggest the following elements in the partnership approach:

- 1) Create the right atmosphere by going to a man as a friend and not as a critic. Our function is to help him make the right decisions, not to make them for him.
- 2) Contrive to get him to suggest what the goal or standard should be. If we have created the right atmosphere, he will usually respond realistically.
- 3) Make sure beyond any doubt that there is no question about what elements comprise the standard. The detailed discussion in this area can be educational to everyone.

Thus far, we have dealt with individual responsibilities. How about team relationships—the sales manager with those in the shop and inventory control, the accountant with the shop, etc.? Here the element of coordination becomes a major consideration. This is an area where the chief executive creates the atmosphere and sets the pace. It is his responsibility to use every device at his command to build a real team. After all, the most adept, competent group working as individuals is never as successful as a group working as a team. That is an old cliché, but worthy of belief.

Provision for Communication. The final step in organization development is providing for consistent and effective communication. The importance of this cannot be over-emphasized. To my way of thinking, good communication is the lubricant which permits a well-constructed organization to perform at peak efficiency with a minimum of friction. On the surface, communication per se seems to be a relatively easy thing to accomplish. We all feel that we can communicate with other people, but when we attempt to develop the element of efficient communication in our business relationships, the problem seems suddenly to become extremely difficult and frustrating.

The mechanics of communication, the written and spoken word, are not sufficient in themselves. Over and above these mechanics is the important factor of creating the right atmosphere and climate so that we will be sure of proper reception and responsiveness. A communication from the boss, beautifully typed on bond paper and routed through the organization, can accomplish only so much. It is going down one side of the street, but most streets are two-way. We also want traffic coming back to us from the outermost reaches of our organization. We want the ideas and the thinking of our supervisors and we want to be aware of their frustrations and apprehensions. We also should have cross streets in our system so that we can develop communication between departments, plants, and divisions. In other words, we should stress a three-way communication—up, down, and across the various functions represented in the business.

Again the chief executive is the principal initiating and motivating force in meeting the challenging problem of good communication. He must first establish the right climate and atmosphere by being willing to receive as well as to give. Secondly, he must

create and use the means of communication. In general there are three forms of communication: the written word, the formal meeting, and the no less important informal communication achieved through day-to-day contact in the normal course of business activity. Detailed discussion of the ways and means of communication falls outside the scope of this article.

THE ORGANIZATION AT WORK

Now, having defined responsibility, delegated authority, set standards of performance, and created the climate and mechanics of good communications, we are ready, I believe, to consider briefly and in general terms our organization in operation. Thus far, we have given attention only to one group of people: our employees, particularly our management or supervisory staff. Others with whom we must have concern are our shareholders, our customers, our suppliers, the communities in which our business operates, etc. We must undertake to influence and motivate these groups as well as our own employees. The way in which we conduct our business, as determined by the structure and practice of organization, is a powerful instrument of influence and motivation in dealing with these different groups of people upon whom we depend for our very existence. The organization structure and its functioning are vitally important in providing for our customers good service and a low cost, quality product, in providing for our shareholders an equitable and competitive return on their investment in our business, in insuring our vendors fair treatment and prompt payment of obligations, and so on.

Thus, organization *per se* is not confined within the circumference of the activities which we commonly and narrowly think of as our own business. It has a tangential relationship with everything our business touches. In a

situation where there is insufficient and inadequate definition of responsibility and poor delegation of authority, there is bound to be evidence of confusion, misunderstanding, and, most importantly, a lack of decisiveness. The company will lack vigor and drive and tragically it will lack efficiency—all of which will have sad effects upon such very important things as customer relationships.

On the other hand, in a properly developed organization where duties and responsibilities are clearly defined and thoroughly understood, the management process will be broadened and strengthened. We can achieve a situation wherein the activities of the business are directed and controlled as the result of a multitude of decisions made within the scope of functional intimacy and competency. The foreman in the shop, the inventory control supervisor, the man at the counter, the salesman on the road, and all the others who make up the manager's structure have a great deal to contribute. Each lives in daily physical and mental contact or intimacy with the various activities of our business and the problems arising therein. Each is there because he is presumed to be competent in his respective field and each should be encouraged and trained to make decisions within the sphere of his contact, influence and experience. This, in my estimation, is the ideal management situation. In our own case, we recognize that we are simply not smart enough in the Central Office to call the shots in all areas of our business.

A management worthy of its hire is constantly studying yardsticks against which to measure its own performance. We are interested in everything that others have to say on this subject. Generalities are common, but specifics are amazingly rare. However, about a year ago, we came across something that makes a great deal of sense to us. It is a 14-point check list and, signifi-

cantly, five of these, or more than one third, apply to the present subject.¹

- 1) Written position description for all management jobs
- 2) An organization chart, not more than one year old, showing relationships among all management positions
- 3) A formal personnel development program
- 4) A reports system for supplying vital information at all levels
- 5) Regular staff meetings for performance review.

SUMMARY

In essence, the ideas covered in this article can be reduced to a few fundamental points. First of all, organization concerns people—and I emphasize people—each with special duties

¹From the "President's Scratchpad" editorial, written by Lawrence A. Appley, president of the American Management Association, appearing in the June 1957 issue of *Management News*.

working toward a common goal of operating a successful business. To effectuate their performance as an organization or team, their duties and responsibilities must be clearly defined. They should be guided by standards of performance which they have helped to create, and they should be given the benefit of a communications atmosphere that will permit them to give information freely as well as to receive it.

The organization structure itself must reflect the desires and needs of the chief executive. Moreover, it should be custom-made to fit available personnel and the characteristics of the business, and it should be responsive to personnel development and turnover and to changing economic conditions.

Organization is needed to give cohesion and direction to people in creating and maintaining a successful and profitable business operation. Its form may vary from company to company, but in my experience the principles discussed in this article can be applied successfully to any business enterprise.

A Shining Morning Face

BUSINESS TOPICS recently changed its format, as our readers have noticed, many of them with applause. One aspect however was not changed because there seemed no room for improvement: we continue to use the same typeface as before, the distinguished Times Roman. This was developed for *The Times* of London in 1932, and was the first type change for that newspaper in 133 years. Technically ideal for most printing purposes, it is sturdy and easy on the eye. Its quiet good taste is attested by the fact that it is possible to read it indefinitely without being aware that there is any distinctive style to it.* Since its introduction it has become the standard face of the printing industry. In England, at least, more books are produced in this face than in any other.

* As a contrast in legibility, consider this typeface, which is Bodoni, one size larger than our Times Roman.

READING FOR BUSINESS AND PLEASURE

Notable British Trials¹

THE NOTABLE BRITISH TRIALS Series, which began as a hobby, has continued as an institution in British legal literature. Harry Hodge founded the series in 1905 and, at the time the most recent volume was published, 1953, eighty-three trials had been analyzed, criticized, and published. All of the misery and misfortune that can descend on man is contained therein. The high and the lowly are represented. Crimes against State, crimes against people or property, crimes of cunning or violence, all are accounted for.

In the list of trials many famous names appear: Mary Queen of Scots, Captain Kidd, Oscar Wilde, King Charles I, and the Bounty Mutineers; these, however, make up the minority. Most of the cases deal with little people who rose to notoriety because of the monstrous nature of their crime or because of the multiplicity of their acts, or both.

Although the murder rate in England is low, it is quite evident that some few Englishmen felt drawn to this sport. As examples, Burke and Hare ran a murder factory, George Smith killed at least three "wives," Dr. Ruxton disposed of his wife and maid, and Evans and Christie, together, accounted for eight females.

These accounts will not interest the reader who desires a mystery or a who-done-it. The crime has been committed and the defendant and charge

are known. As an introduction, each writer outlines the crime and gives the salient points testified to by each witness, as well as a biographical sketch of the defendant. Thus briefed, the reader is then taken through each trial day, and testimony is reproduced in detail with only mild evidence of editing. Unless the reader has had court experience on one side of the fence or the other, this paraphrasing is not obvious. Even to the experienced witness, the presentation holds a fascination. It is significant that many of the verdicts reached revolved about one or two salient features and not all cases were concluded with a guilty verdict. Even this does not preclude their being interesting reading.

As the testimony is presented, it is easy to visualize the dilemma of the jury—now he's guilty, now he's not. Good points are presented by both sides. The traditional element of fairness and dispassionate pleading characterizes most of the cases and a thorough preparation by the police is usually evident.

Two recent cases presenting medical, as well as legal, problems were the trial of James Camb and the trials of Evans and Christie. Camb was accused of strangling a young woman aboard the *Durban Castle* and then pushing her body through a porthole. No body, no autopsy; was death natural or homicidal? Who was responsible for pushing two call buttons? Defendant denies any knowledge of this act and the deceased, who may have tried

¹*Notable British Trials.* James H. Hodge, General Editor, William Hodge & Company, Ltd., London, 1905.

to summon help, was fed to sharks ninety miles off the coast of Africa. The prosecution had to use each shred of evidence skillfully in order to obtain a conviction.

Poor Tim Evans will remain in some Britishers' minds as the man who was executed for a crime he admitted and yet may not have committed. His "friend," John Christie, who testified at his trial on the side of the prosecution, may have killed Evans' daughter himself. Christie, as it developed later, was no saint because he stood trial for one of six murders committed in the same house where Baby Evans died of strangulation.

Perhaps the Notable British Trials Series is not to be considered relaxing

literary diet. Certainly it does not fall into the same class as Spillane or Gardner. However, the fact that the sensational has been played down does not remove each trial from the realm of intense drama; living men's lives were at stake. Many of these cases established points of law which have a bearing on American justice and each citizen has a duty to familiarize himself with the workings of the courts, either through actual visits or through reading accounts like the Notable British Trials.

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Books in Brief

CUNNINGHAM, NOBLE E. *The Jeffersonian Republicans: The Formation of Party Organization, 1789-1801*. Chapel Hill, University of North Carolina Press, 1957.

In this interesting account of the Jeffersonian Republicans, the author stresses the immediate origins of the party, and the means by which it gained control of the national administration. Much attention is focused on party leadership, party machinery, and campaign practices. In his account of the party the author reveals much about the actual personalities and events of the period.

ERHARD, LUDWIG. *Prosperity Through Competition: The Economics of the German Miracle*. New York, Praeger, 1958.

One of the most amazing achievements during the post-war period has been the comeback of West Germany. The author of this book, as Vice-Chancellor and Minister for Economic Affairs of the German Federal Republic, was

largely responsible for this revival. Through his bold decree ending rationing and price controls in 1948, Germany has returned as one of the leading industrial countries.

Alcoholics Anonymous Comes of Age.

New York, Harper, 1957.

Beginning with a sketch of the historic St. Louis Convention, the Alcoholics Anonymous movement unfolds before our eyes. Included are three speeches by Bill W., a co-founder of the movement, and addresses by a number of A.A.'s friends. It is a "must" book for those in the field, and will be of great interest to any having a desire to know more about A.A.

BURSTEN, MARTIN A. *Escape from Fear*. Syracuse, Syracuse University Press, 1958.

Following the Hungarian Revolution of October 1956 thousands of terror-stricken Hungarians escaped into Austria and Yugoslavia. This is the story of those people as told by a veteran

journalist who was among the first newsmen to reach the Austro-Hungarian border in November, 1956. After returning to this country the author had further opportunity for contact with the refugees at the Joyce Kilmer Reception Center.

BERLINER, JOSEPH S. *Factory and Manager in the USSR*. Cambridge, Harvard University Press, 1957.

With the current interest in the Soviet system, this book is of timely importance. Covering the period from 1938 to the recent post-Stalin reforms, it gives a realistic picture of Soviet business life. The executive emerges as a live figure, hard-working and harassed, who manages to run a going concern despite the ever-present obstacles. We see the manager forced to engage in irregular or illegal practices such as under-reporting his production capacity, and shaving on quality of production when he is faced with high production targets, because of material shortages and unrealistic orders from Moscow.

NESS, ELIOT. *The Untouchables*. New York, Messner, 1957.

A thrilling "who-done-it" describing the activities of a small group of men led by the author, Eliot Ness, in breaking up the Al Capone empire. Ness' strategy was to make a large enough dent in Capone's bank account so that he could no longer afford payoff money. The account is filled with hairbreadth escapes, murder, raids, wire tapping, and the checking and rechecking of information.

PRICE, R. G. G. *A History of Punch*. London, Collins, 1957.

A very readable account of the world's leading humorous magazine. Filled with humorous drawings, prose, and verse, the history presents many aspects of British public and domestic life from the Victorian period to our own day. It contains contributions from

such writers as A. A. Milne and P. G. Wodehouse.

LEVY, MICHAEL H. *Your Insurance and How to Profit By It*. New York, Harcourt, Brace and Company, 1955.

Nearly everyone is faced with the question of how much personal insurance is necessary. This book, presenting the reader with a concise guide to insurance, answers such questions as how to buy, how to save money on what you buy, what type of coverage is needed, and how to select an agent. Throughout the book one important point is made again and again: "Read your policy."

MAYNE, F. BLAIR and GERALD CROWNINGSHIELD. *Accounting for Secretaries*. New York, McGraw-Hill, 1957.

This book will be of great usefulness to the secretary who needs or wants to acquire a basic knowledge of accounting. The authors have described and illustrated the accounting procedure used in many types of business activity. It is written in such a way that the secretary with little or no training in accounting can understand it.

MORRIS, JOE ALEX. *Deadline Every Minute: The Story of the United Press*. New York, Doubleday, 1957.

A fascinating and thrilling account of one of the great news gathering agencies. Beginning with the founding of the UP and continuing to the present, the reader learns how a news service and its staff keeps us up-to-date on the news. The pages are studded with names such as Roy Howard, Walter Cronkite, Westbrook Pegler and H. Allen Smith, and places and events like Lindbergh's flight, the Wall Street Crash of 1929, and the Hungarian revolt of 1956; names and places that are household names today. Above all it shows how unrelenting the American newsman is in his search for news.

W.S.S.

The Railroad Problem

By Eric Schenker

AT THE PRESENT time, Senator George A. Smathers, Chairman of the Surface Transportation Subcommittee of the Senate Committee on Interstate and Foreign Commerce, is conducting an inquiry into the plight of the nation's railroads. For a long time now, railroad revenue has been declining relative to costs; and, in recent years, the drop has been particularly sharp. This is not an absolute decline in railroad operating revenues but a profit squeeze.¹ The obvious reason for this is that trucks and pipe lines have been capturing a larger and larger share of the nation's traffic. Since the traffic the railroads are losing is the most profitable kind of traffic, they feel that they can no longer help themselves and are asking the Federal Government for help. The purpose of this paper is to analyze some of the latest ideas on how to save the railroads, as presented by railroad executives at the hearings.

A summary list of ideas presented by various railroad executives to the Subcommittee follows:

1. Take away some of the Interstate Commerce Commission's power to fix rail rates and fares.
2. End Federal excise taxes on transportation of passengers and freight.

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¹The term *profit* is used as defined by accountants.

3. Clear the way for more railroad mergers.
4. Set up a Federal agency to rent equipment to railroads.
5. Allow railroads to integrate with truck, air, and steamship lines.
6. Abandon rail service where it is losing money.
7. Provide state and local subsidy to cover deficits on commuter service.
8. Reduce state and local taxes on railroads.
9. Increase depreciation deductions on rail equipment.
10. Impose regulations on some truck and water operations now exempt.
11. Increase taxes and fees paid by truckers and airlines.
12. Add a Secretary of Transportation to the President's cabinet.

Let us take a look at the above proposed changes in laws and official rules. The first recommendation is based on the premise that the transportation industry now operates in an atmosphere of pervasive competition and that the adjustment of regulatory policies to these competitive circumstances is long overdue. The changes which the railroads referred to occurred during the last 30 or 40 years as transportation services came to be supplied by several different agencies, thus giving the consumer alternative choices. Probably more important, three out of five signifi-

cant modes of transportation, motor, air, and water carriers, exhibit the economic characteristics of highly competitive industries. They are not subject to the ruinous competition attributed to natural monopolies. Nevertheless, the idea persists that competition among firms of any form of transport for hire is necessarily ruinous.

To rectify the present situation, the railroads advocate making competitive pricing meaningful within a framework of regulation. In order to accomplish this end, more reliance must be placed on competitive forces in rate making. This can be accomplished by a reduction of the authority of the Interstate Commerce Commission in rate regulation to the determination of reasonable minimum or maximum rates, with no change in existing provisions against undue discriminations or preference or the setting of excessive rates where competition is not effective. The writer believes that this change would result in reduced costs to the American public, and at the same time, bring back some of the traffic lost by the railroads.

The second proposed change urges repeal of taxes on transportation. The specific taxes to which the railroads are referring are the 10 per cent that users of airlines, railroads, or buses see added to their passenger fare when traveling for either business or pleasure purposes; the extra 3 per cent that shippers must pay on freight bills received from for-hire carriers; the $4\frac{1}{2}$ per cent of revenue received for moving petroleum that pipe lines must turn over to the government; and the 4 cents per short ton added on public carriers, as charges for moving coal. The writer believes that the repeal of these taxes is long overdue since their original purpose was temporary. These taxes were instituted during World War II to discourage the general public from using public carriers. They have a tendency to fall more heavily on low income groups and small shippers.

The third proposed change urges mergers with a view to saving money and speeding up shipments. *Merger* means the absorption of the property and franchises of one or more companies by another company without the creation of an additional corporation. The writer is in favor of mergers as long as economies are achieved. Up to a certain point mergers are advantageous, but sooner or later they cease to be economical. The Canadian Railway System indicates that there is room for mergers in the U. S. system. The Interstate Commerce Commission would have to determine if the proposed mergers were in the best interests of the public.

The fourth proposed change advocates financial aid to the railroad by a new Federal agency. This agency would get its capital initially from the Treasury but would raise most of its money by selling its own securities to investors. With the money the agency would buy new railroad cars and locomotives for leasing to railroads. The railroads would pay enough rent to return the cost in about 20 years, plus interest figured at $\frac{1}{4}$ of 1 per cent more than the agency paid to borrow. The writer believes that this proposed change is not necessary if the other proposed changes advocated were adopted. Railroads would have no difficulty attracting capital and modernizing if the proposals approved by the writer were instituted.

The fifth proposed change advocates "integration." The term is used in a variety of senses. In the field of transportation, however, it is perhaps most usually applied to the unification of operations, facilities, or services as between different types of transport agencies (rail, water, motor, air, and pipe line), regardless of the methods used to effectuate the unification.² Integration is contrasted with consolidation, which refers to the unification of two or more carriers of the same form of transportation.

The existing special restrictions against the integration of agencies of different modes of transportation originated with the construction of the Panama Canal. Congress, at that time, thought it necessary to study means of assuring continued competition between the railroad and water carriers which were expected to use the Canal in inter-coastal trade. After receiving evidence indicating that railroads had gained extensive control over water carriers operating along the coast, on the Great Lakes, and on some inland rivers, and that there was little, if any, competition between rail and water carriers in these areas, Congress prohibited railroad control of, or interest in, common water carriers or vessels operated through the Panama Canal and forbade railroad ownership or operation of common water carriers or vessels on other waterways in situations where the railroad and water carrier or vessel did, or might, compete for traffic, except after a finding by the Interstate Commerce Commission that such integration was in the public interest and would not reduce competition on the water routes under consideration.³ As a result of this legislation and the Commission's refusal to find continuing integration in the public interest, many railroad-water carrier relationships, particularly on the Great Lakes, had to be dissolved, and the Panama Canal Act has been an effective bar to any new large-scale railroad participation in domestic water transportation.

The existing special restrictions against rail-highway integration have their origin in the Panama Canal Act, and the belief that the failure to impose such restrictions would foster the growth of monopoly and lessen competition between forms of transportation. The writer believes that adoption of

the present idea presented by the railroad executives would not be in the public interest. Competition between the various modes of transportation is desirable.

The sixth proposed change urges abandonment of service or routes when they are losing money. This means that the Interstate Commerce Commission must be given complete power to rule on plans for the reduction of service or abandonment of routes. This power now resides, in many cases, with the various state commissions. The writer is in favor of this proposal since some of the traffic lost by the railroads is gone forever. Pipe lines, for instance, are more efficient carriers of petroleum. This proposal, along with the changes advocated in I. C. C.'s power to fix rates, would lead to a national transportation system designed to recognize the inherent advantages of each mode of transportation based on competition. The writer feels that any other basis for allocating traffic will impair the economic efficiency of the country's transportation system.

The seventh proposed change urges state and/or local subsidies to cover deficits on commuter service. Commuters are those who use the railroads to go between their homes and offices. They require service in one direction for a brief period and in the opposite direction for a brief period in the evening. The writer believes that the railroads should not be obliged to furnish service at an annual loss. Those who benefit from the service should pay the cost of providing it. Commuter service should be treated like any other public utility service, and the railroad providing the service should be entitled to a compensatory charge. If the local regulatory agency does not allow the railroad a compensatory charge, a local or state subsidy would be reasonable.

The eighth proposed change advocates a reduction of state and local taxes. Steadily rising taxes have be-

³Interstate Commerce Commission, *Sixty-Second Annual Report* (Washington: Government Printing Office, 1949), 54.

⁴Leslie A. Bryan, *Principles of Water Transportation* (New York: the Roland Press Company, 1939), 410.

come an increasingly significant element in the cost of railroad service, doubtless being shifted in a large part to the consumer. Taxes are deducted from operating revenues before arriving at the net operating income in the public utility field. Thus, according to the Supreme Court, a fair return is a return over and above all taxes as well as operating expenses. Since this is true for all public utilities, the writer feels that railroads should not receive special tax reductions by state or local government. If the other proposed changes advocated by the writer are adopted this provision will not be necessary.

The ninth proposed change urges a plan which would permit a railroad to deduct the cost of a new freight car in one year instead of having to stretch the deductions over 26 years, as present law requires. As the writer opposed the fourth proposal, advocating financial aid to the railroads by a new Federal agency, the writer opposes this proposal on the ground that the railroads would have no difficulty in attracting new capital if some of the indicated proposals are adopted.

The tenth proposed change urges more regulation on some truck and water operations which are now exempt. Almost all railroad traffic is subject to economic regulations by the Interstate Commerce Commission or state regulatory commissions. By far the greater part of highway and inland water traffic, on the other hand, is entirely free from such regulations. One reason for this is that a large part of this traffic is private carriage and another large part is for hire transportation expressly exempt from regulation under the Interstate Commerce Act. Thus, the railroads, common carrier backbone of the national transportation system, and strictly regulated as they are, are compelled to meet the competition of forms of transportation made up predominately of unregulated private and exempt carriers. The railroads want to

change this situation by urging more regulations for other modes of transportation, and less regulation for themselves. Taking away some of the government's power to fix rail rates and fares would be a step in this direction. On the other hand, more regulation for truck and water operators would not be in the public interest. An example of this is to be found in a recent study conducted by the Department of Agriculture. This study dealt with the effects of agricultural exemptions upon interstate transportation of fresh and frozen poultry. The conclusion of the study was that interstate trucking of fresh and frozen processed poultry under the agricultural exemption clause has resulted in lower rates and, in the opinion of processors, improved service.⁴

The eleventh proposed change urges that increased taxes and fees be paid by truckers and airlines. It seems obvious to the writer that the proposal does not merit serious discussion, due to the limitations of the philosophy in which it originates.

The twelfth proposed change urges that a Secretary of Transportation should be added to the President's cabinet, on the grounds that a Department of Transportation could be an effective instrument for carrying out a sound national transportation policy if it were the sole agency concerned with the problems of transportation. It could reconcile the present conflict between regulatory and promotional activities if the primary objective was fair and equal treatment to all competing forms of transportation. At the present time numerous government departments are concerned with transport promotion and regulations. The Interstate Commerce Commission has jurisdiction over all forms of interstate public transporta-

⁴Marketing Research Division, United States Department of Agriculture, *Interstate Trucking of Fresh and Frozen Poultry under Agricultural Exemption* (Washington: Government Printing Office, 1958), 1.

tion, except air carriers and pipe lines for gas and water. The Civil Aeronautics Board has broad powers over interstate air commerce. The Federal Maritime Board has powers of control over American and foreign flag carriers engaged in foreign commerce. The Chief of Engineers of the Army supervises the improvement of waterways. The state highway departments and the Bureau of Public Roads build and plan highways. The Civil Aeronautics Administration supervises the development of airways and airports. In addition, transportation in particular fields is effected in various ways by the Weather Bureau, the Coast Guard, the Coast and Geodetic Survey, the Department of State, the National Advisory Committee for Aeronautics, the Air Coordinating Committee, and other branches of the government.⁵ The writer agrees with the railroad proposal that regulations and promotion should be committed to a single department. Then the conflicting interests of the various competing forms of transportation could be fairly evaluated in order that each type of carrier attain its fullest economic development.

In conclusion, one can look for the recovery of the railroad industry, and a strong transportation system generally,

⁵Bigham & Roberts, *Transportation—Principles and Problems* (New York: McGraw Hill Book Co., Inc., 1952), 678.

if more reliance is placed on the market to determine price. In other words, the power of individual enterprises to exercise monopoly control has been rapidly eliminated by the growth of pervasive competition in our transportation industry. Our transportation laws are still primarily designed to protect against monopolistic excesses and there is a misallocation of traffic. To rectify the present situation, the writer advocates the following six of twelve ideas presented by railroad executives to the Subcommittee of the Senate Committee on Interstate Foreign Commerce:

1. Take away some of the I. C. C.'s power to fix rail rates and fares.
2. End federal excise taxes on transportation of passengers and freight.
3. Clear the way for more railroad mergers as long as economies are achieved.
4. Abandon rail service where it is losing money.
5. Provide state and local subsidies to cover deficits on commuter services.
6. Add a Secretary of Transportation to the President's cabinet.

These proposals are a step toward the development of a national transportation policy designed to recognize the inherent advantages of each mode of transportation based on competition. This type of policy will best serve the public interest.

Want a Tax Reduction?

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Measuring

THE 1957 TOURIST AND RESORT BUSINESS in Michigan's Upper Peninsula

BY ROBERT WOODROW MCINTOSH

An ingenious method of measuring tourism is applied to an area where accurate estimate is essential to future planning.

TOURISM (the business of accommodating and otherwise serving the vacationing public) has grown remarkably in Michigan over the past 10 years. For example, the number of motels has increased from 1,441 in 1948 to approximately 2,400 in 1957. Volume of tourist business rose from \$410,000,000 in 1948 to about \$650,000,000 in 1955. Manufacturing, agriculture, and tourism now comprise the foundations of our economy. For comparison, in 1955 the value added by manufacturing in Michigan was \$10,690,504,000 (U. S. Bureau of Census), agricultural marketings were \$640,472,000 (Michigan Department of Agriculture) and tourism, \$650,000,000 (Michigan Tourist Council). All of these figures fluctuate from year to year, however.

Recent opening of the Straits of Mackinac Bridge has focused attention on the Upper Peninsula and prospects for its future economic development. Since 1945 tourism has likewise grown rapidly in that division of the state, becoming a major part of the economy. A measure of the 1957 volume is essential for subsequent studies of the

influence of improved accessibility on this vacation area.

This article describes a method of computing, and reports on the results of a study of the 1957 dollar volume and distribution by counties of the tourist and resort business in Michigan's Upper Peninsula.

Food is one of the important costs in travel and vacations. A 3 per cent Michigan sales tax is levied on the retail sales of groceries, restaurants, and other food purveyors. The Michigan Department of Revenue reports these tax collections by months in its *Research and Statistical Bulletin*.¹ A breakdown of the tax collected on food sales in each county is included.

In Upper Michigan, total tax collections on food sales varied considerably by months. Table 1 documents these relationships.

TABLE 1

Upper Peninsula Sales Tax Collections on Food by Months, Dec. 1956 - Nov. 1957

Month	Collections
August	\$ 415,351
July	391,773
June	340,516
September	318,644
December	311,671
November	309,303
October	301,745
May	291,854
March	272,243
April	258,686
February	246,063
January	239,540
Total	\$3,697,389

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A study of Table 1 indicates that collections in August were 73 per cent greater than in January. Also, the leading tourist months begin in June and run through December. Lowest months are the January-May period. Apparently the winter sports business has not grown sufficiently to compare favorably with summer and fall activities; however, the potential for winter business appears very favorably as ski centers have doubled, from 7 to 14, in the past 3 years.

Total tax collected on food sales in each Upper Peninsula county is shown in Table 2. The total cost of food purchased is computed by capitalizing the sales tax collections at 3 per cent.

TABLE 2

Upper Peninsula Sales Tax Collections on Food and Total Food Purchased, 1957

County	Collections on Food	Total Food Purchased
Marquette	\$ 662,018	\$ 22,067,266
Delta	429,361	14,312,033
Houghton	429,343	14,311,433
Chippewa	396,585	13,219,500
Gogebic	338,192	11,273,066
Dickinson	288,809	9,626,966
Iron	235,156	7,838,533
Menominee	211,135	7,037,833
Mackinac	192,125	6,404,166
Schoolcraft	132,084	4,402,800
Alger	106,412	3,547,066
Ontonagon	102,129	3,404,300
Luce	79,606	2,653,533
Baraga	65,002	2,166,733
Keweenaw	29,432	981,066
Total	\$3,697,389	\$123,246,294

A basis of comparison was needed to differentiate food sold to permanent residents and food sold to tourists. I selected January food sales, as this is a full length month and tourist activities are at a minimum, except for winter sports. Food sales for January, 1957 were computed for two counties, Baraga and Chippewa. Baraga County is in the western part of the Peninsula at the gateway to the Copper Country. It

is a small-population county. The two principal villages are Baraga and L'Anse, which are both located at the south end of Keweenaw Bay. These villages are the primary shopping centers for residents of the county. Baraga County has no commercial winter sports activities.

Chippewa County is found in Upper Michigan's extreme northeast corner. It is famous as the location of the Soo locks at Sault Ste. Marie. This county likewise has no organized winter sports centers. Sault Ste. Marie is the principal shopping community for residents of the county. Table 3 shows food sales in these two counties and the average dollar volume of food sold per capita.

TABLE 3

Food Sales Per Capita, Chippewa and Baraga Counties in January, 1957

County	Permanent Residents	Food Sales	Per Capita
	1956*		
Chippewa	31,690	\$801,066	\$25.28
Baraga	6,020	138,400	22.99
Arithmetical Average			\$24.13

*Source: *Michigan Population by County, April 1, 1950: July 1, 1956*, Michigan Department of Health.

Permanent residents thus spent an average of \$24.13 per capita per month for food, or \$289.56 for the year. Sales in excess of this amount comprised food sales made almost entirely to tourists and vacationists. Food purchases constitute the largest item of vacation costs. According to studies of the American Automobile Association, food purchases amount to about 28 per cent of the vacationists's dollar.² Capitalization of the amount spent for food would result in total vacation expenditures. Table 4 illustrates this method of computation for the 15 Upper Peninsula counties.

Menominee County presents a marked exception in retail food sales. The total food sales for the year are less than the average amount spent for

TABLE 4

Purchase of Food as Indicative of Tourist and Resort Business, 1957

County	Permanent Residents*	Food Purchased by Permanent Residents†	Total Food Purchased	Tourist and Resort Purchases (Difference)	Total Tourist and Resort Business‡
Marquette	49,900	\$14,449,044	\$ 22,067,266	\$ 7,618,222	\$ 27,207,935
Delta	31,030	8,985,046	14,312,033	5,326,987	19,024,953
Houghton	33,600	9,729,216	14,311,433	4,582,217	16,365,060
Chippewa	31,690	9,176,156	13,219,500	4,043,344	14,440,514
Gogebic	26,200	7,586,472	11,273,066	3,686,594	13,166,407
Mackinac	9,760	2,809,005	6,404,166	3,595,161	12,839,860
Dickinson	22,890	6,628,028	9,626,966	2,998,938	10,710,492
Iron	18,490	5,353,964	7,838,533	2,484,569	8,873,460
Schoolcraft	8,630	2,498,902	4,402,800	1,903,898	6,799,635
Alger	9,420	2,727,655	3,547,066	819,411	2,926,467
Luce	7,490	2,168,804	2,653,533	484,729	1,731,175
Ontonagon	10,190	2,950,616	3,404,300	453,684	1,620,300
Baraga	6,020	1,743,151	2,166,733	423,582	1,512,792
Keweenaw	2,370	686,257	981,066	294,809	1,052,889
Menominee	25,440	7,366,406	7,037,833	—	—
Total	293,120	\$84,858,722	\$123,246,294	\$38,716,145	\$138,271,939

*Source: *Michigan Population by County, April 1, 1950: July 1, 1956*, Michigan Department of Health, Lansing. Figures shown are 1956 population.

†Computed at \$289.56 per capita.

‡Computed by capitalizing tourist food expenditures (difference) at 28 per cent.

food by permanent residents, computed at \$289.56 per capita. Almost 44 per cent of the county's population lives in the city of Menominee. This city and Marinette, Wisconsin are twin cities, separated by the Menominee River. Wisconsin has no sales tax. Residents of Menominee could purchase foods in Marinette to escape the tax. Menominee County undoubtedly has a tourist and resort business, but I have not taken it into account in this study.

Computations are probably conservative. Menominee's tourist and resort business has been omitted. Also, some tourists consume foods which are purchased in the Lower Peninsula or in another state. Sales taxes are not collected on fruits and vegetables grown in home gardens, fish caught by vacationists, wild berries which are harvested, or game animals taken by hunters. The amount of such foods

consumed is probably of significant proportion, but no accurate estimate of this volume can be made by the author.

CONCLUSION

Retail sales taxes collected on food sold in the Upper Peninsula varied considerably by months during the year. The difference between the cost of food purchased yearly by permanent residents and actual total food sold was attributed essentially to food purchased by tourists and vacationists.

Knowing that about 28 per cent of the vacationist's dollar was spent for food, we thus find that the gross dollar volume of the tourist and resort business in the Upper Peninsula for 1957 was over 138 million dollars.

¹*Research and Statistical Bulletin*, (Lansing: Michigan Department of Revenue, issued monthly.)

²*Americans on the Highway*, (Washington, D. C.: American Automobile Association, 1956), p. 4.

Current Business Conditions

BY JOHN H. HOAGLAND

Business conditions for the Spring and Summer of 1958 are being influenced by the anticipation of a steel price increase and the possibility of major strikes in the automobile industry. These factors compound the difficulty of correctly interpreting the progress of the current business recession. Certainly some of the increased business activity of May and June can be attributed to steel consumers requesting July requirements to be shipped in June in order to avoid the expected July 1st steel price increase. These advanced steel shipments plus earlier and longer shutdowns for model changeovers in the automobile industry will undoubtedly depress business activity in July and August.

Frequently, both strikes and price increases have previously had a considerable influence on business conditions. Although a major price increase or strike has not yet occurred this year, the threat of each is again apparent. How and when these important events are finally settled will determine to a considerable extent the course of business in the months ahead. The peaceful settlement of the disputes in the automobile industry plus stable prices could contribute to a rapid business recovery in the latter half of 1958. Conversely, serious strikes and big price increases could stall a business recovery.

A major business recovery should be under way by this fall. Too much turmoil, however, in the business or political community could delay this recovery. Some of the pertinent data relating to current business are summarized here.

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PRODUCTION ACTIVITIES

Industrial Production, measured by the Federal Reserve Board's seasonally adjusted index, arrested its long decline and turned up in May. Starting from a high of 147 in December 1956 this index had declined to a low of 126 in April 1958. In May the index rose to 127 and is estimated to be 129 for June. For the past year this index has been as follows:

Month	Index	Month	Index
July '57	144	January '58	133
August	145	February	130
September	144	March	128
October	141	April	126
November	139	May	127
December	136	June	129

(estimated)

Barron's Weekly Index of physical volume of business, adjusted for seasonal and long-term growth trends, indicates the recovery during May and June to be equal to the decline occurring in the first four months of 1958.

Week Ending	Barron's Index
Jan. 4	90.0
Feb. 1	87.3
Mar. 1	85.9
Apr. 5	81.5
Apr. 12	81.2
Apr. 19	81.1
Apr. 26	80.4
May 3	80.5
May 10	81.1
May 17	82.9
May 24	84.8
May 31	85.8
June 7	89.1
June 14	90.1
June 21	90.7
June 28	89.1

Steel Production reached its low point at the end of April and then increased noticeably during May and June. Much

of this increase is due to steel consumers accumulating steel inventory in anticipation of a July 1st price increase. Although this price increase did not occur then, some increase is still expected during the remainder of 1958. Steel activity started to decline again in the last week of June and this trend is expected to continue into July.

Week Ending	Index 1947-49 = 100	% of Rated Capacity
May 3	80.2	47.8
May 10	83.0	49.4
May 17	87.9	52.3
May 24	94.8	56.4
May 31	97.5	58.1
June 7	104.9	62.4
June 14	107.6	64.0
June 21	109.0	64.9
June 28	103.7	61.7

Automobile Production continued at its lowest level since 1948, and will drop even further, as producers are shutting down one to three months early for model changeovers. During the first six months of 1958, automobile production was 33.4% behind the same period of 1957. On a weekly basis the comparison for May and June was as follows:

Week Ending	1958	1957	% Change from 1957
May 3	78,311	125,914	-38
May 10	78,406	127,404	-38
May 17	87,407	127,428	-31
May 24	86,561	82,397	+ 2
May 31	66,804	129,563	-49
June 7	73,417	125,093	-31
June 14	78,188	118,805	-35
June 21	84,631	125,908	-33
June 28	92,282	74,107	+24

Railroad Carloadings, although still behind the like period of 1957, have gained in recent months. This increased activity is as follows:

Week Ending	% Change from Year Ago	% Change from Preceding Week
May 3	-25.9	- 0.1
May 10	-31.2	+ 0.4
May 17	-22.3	+ 4.8
May 24	-21.1	+ 1.8
May 31	-21.1	- 7.2
June 7	-16.5	+15.7
June 14	-16.6	+ 1.5
June 21	-15.9	+ 0.9
June 28	-14.5	- 0.2

Electrical Output for the nation is holding about equal to that of a year ago, but this means it is lagging behind the "normal" 10% yearly increase. The data

on the central industrial area of the country shows where much of the lagging is occurring.

Week Ending	National % Change from Year Ago	Central Industrial % Change from Year Ago
May 3	+0.3	-3.2
May 10	0.0	-2.9
May 17	-2.3	-5.9
May 24	-2.2	-5.4
May 31	+2.0	-2.0
June 7	+1.1	-2.8
June 14	+1.3	-1.8
June 21	-3.2	-6.7
June 28	-2.9	-3.9

Construction Activity, as reported by F. W. Dodge Corporation, showed an increase in the month of May due to a 14% increase in the amount of publicly financed work. With 43% of the total volume of May construction contracts being publicly financed, the monthly comparisons of construction activity with a year ago were total up 5%, residential building up 4%, manufacturing building down 32%, heavy engineering contracts down 5%. As reported by the U. S. Department of Labor, private housing starts for the first five months of 1958 were almost equal to those of 1957, being at an annual rate of 975,000 units.

CONSUMPTION ACTIVITIES

Department Store Sales continue to resist the declines which have occurred in other areas. Although down in comparison to 1957 these declines are moderate:

Week Ending	% Change from 1957	Week Ending	% Change from 1957
May 3	-3	June 7	+1
May 10	-4	June 14	-1
May 17	-2	June 21	-9
May 24	+3	June 28	-3
May 31	-1		

Chain Store Sales gained 1.2% in April and 5.1% in May over the same months of 1957. Although much of the gain is in grocery and drug store sales, the total picture shows continued consumer spending.

Type of Store	Percent Change from Year Earlier		
	April, 1958	May, 1958	5 months, 1958
Variety	- 3.4	+ 8.1	+ 1.5
Grocery	+ 7.7	+ 8.3	+ 9.0
Mail Order	+ 0.2	+ 0.3	- 0.9
Women's Wear	-18.9	+ 3.4	- 2.6
Men's Wear	-23.0	- 3.2	- 9.7
Shoe	- 9.3	+ 9.9	+ 4.3
Auto Accessory	+ 7.7	+34.9	+30.1
Junior Dept. Store	- 3.9	+ 4.1	0.0
Drugs	+ 8.4	+11.9	+10.4
Furniture	-15.0	-10.5	-17.2
Total	+ 1.2	+ 5.1	+ 3.8

Paperboard new orders now begin to exceed those of a year ago. The backlog also is becoming more equal to that of a year ago as shown:

Week Ending	New Orders (Thousand Tons)		Order Backlog	
	1958	1957	1958	1957
May 3	286.8	381.0	365.2	493.7
May 10	285.1	257.9	383.2	456.7
May 17	240.0	255.8	382.7	423.3
May 24	242.4	242.8	333.9	382.7
May 31	264.6	261.4	348.6	384.1
June 7	304.5	323.5	404.1	455.3
June 14	271.3	254.6	384.5	419.7
June 21	253.1	231.0	366.8	372.6

Automobile Sales continue to lag behind those of a year earlier by 25% to 30%. Inventories of unsold cars in the hands of dealers continue to be slowly reduced and are now estimated at about 700,000 units. At the current rate of sales this inventory represents about two months' supply of cars. With many new models scheduled to be introduced in October, the 1959 cars will be in a better sales position if this inventory of 1958 cars can be considerably reduced before their introduction.

Machine Tool Orders declined in April and May, following a slight rise in the earlier three months of 1958. For the first five months of 1958 new orders for machine tools lagged 60% behind those of 1957. Similarly shipments for the first five months of 1958 were 48% behind those of 1957. With shipments almost double the new orders for this period, the order backlog has declined considerably.

Inventories of manufacturers continue to be liquidated but at a slackening pace. For May, the latest government statistics for manufacturers show the following:

	(Billion Dollars)		% Change Year Ago
	1958	1957	
<i>Durable Goods</i>			
Sales	12.0	14.8	-19
Inventories	29.2	31.9	-8
New Orders	11.4	13.9	-18
Unfilled Orders	45.9	61.1	-25
<i>Non-Durable Goods</i>			
Sales	13.3	14.3	-7
Inventories	21.7	22.1	-2
New Orders	13.4	14.4	-7
Unfilled Orders	2.5	3.0	-17

Prices continued at a high level with the Bureau of Labor Statistics Index of Consumer Prices again hitting a record high of 123.6% in May; 3.3% above that of a year earlier. The BLS Wholesale Price Index also remained high with some tendency to decline slightly and then rise again as noted below:

Week Ending	Wholesale Price Index 1947-49 = 100		Week Ending	Wholesale Price Index 1947-49 = 100
	1958	1957		
May 3	119.3		June 7	119.1
May 10	119.5		June 14	118.9
May 17	119.5		June 21	119.0
May 24	119.3		June 28	119.1
May 31	119.3			

SUMMARY

Business conditions improved noticeably during May and June as indicated by rises in the indices of the Federal Reserve Board, Barron's, steel production, and railroad carloadings. Some of this rise, however, was due to July requirements being accepted in June in anticipation of price increases. This fact—plus earlier shutdowns of the automobile industry—may in turn accentuate declines in July. Consumers continue to purchase actively as indicated by department and chain store statistics. Major price increases and possible strikes remain as uncertainties in the recovery pattern which should be developing this fall.

MICHIGAN BUSINESS STATISTICS

BANK DEBITS

City	Bank Debits (Thousands of \$'s)		Percent Change from Previous Year	
	April '58	May '58	April '58	May '58
Adrian	24,519	27,129	-14.5	-12.7
Battle Creek	75,045	80,364	- 1.6	+ 4.6
Bay City	52,597	53,905	- 3.8	- 7.2
Detroit	5,557,195	5,797,188	-12.8	-14.5
Flint	150,942	152,930	- 1.4	- 1.6
Grand Rapids	316,274	321,933	- 3.4	- 5.3
Jackson	84,921	86,447	-14.0	-13.6
Kalamazoo	146,766	149,132	- 1.3	- 5.8
Lansing	144,308	148,843	- 1.0	- 5.0
Muskegon	83,229	85,976	- 6.3	- 4.9
Port Huron	37,831	41,418	- 7.7	- 5.1
Saginaw	112,601	115,508	- 4.4	- 7.1
Escanaba	11,084	12,136	-10.8	- 4.7
Marquette	10,751	14,117	-13.1	- 6.9
Sault Ste. Marie	10,078	10,321	+ 6.4	+ 2.6

Sources: Federal Reserve Banks of Chicago and Minneapolis and Board of Governors of the Federal Reserve System.

DEPARTMENT STORE SALES

	May 1958 Percent Change from		Percent Change 1958 vs. 1957
	April '58	May '57	
Battle Creek	+ 8	- 4	- 1
Detroit*	+ 7	- 9	-11
Flint*	+ 8	- 7	-14
Grand Rapids*	+ 9	- 5	- 7
Jackson*	+12	-10	- 7
Kalamazoo*	+ 2	- 3	- 7
Lansing*	+ 6	- 6	- 6
Muskegon	+ 8	- 9	- 9
Port Huron	+ 2	- 5	- 4
Saginaw*	0	- 6	-11

*Metropolitan Areas

Source: Federal Reserve Bank of Chicago

TURNOVER OF DEMAND DEPOSIT ACCOUNTS
BASED ON 12 MICHIGAN LOWER PENINSULA CITIES

(Bank Debits ÷ End of Month Demand Deposits)

			Percent Change from Previous Year	
	April '58	May '58	April '58	May '58
	29.4	30.6	- 6.1	- 9.0

Source: Federal Reserve Bank of Chicago

MOTOR VEHICLE FACTORY SALES FROM PLANTS

	Factory Sales		Percent Change from Previous Year	
	April	May	April	May
Passenger Cars	322,482	352,076	-40.5	-34.4
Motor Trucks	73,886	75,283	-30.5	-27.5
Motor Coaches	344	241	-32.0	-47.8

Source: Automobile Manufacturers Association

MICHIGAN BUSINESS INDEXES

(1947-49 = 100)

INDEX OF BUSINESS ACTIVITY¹

				Percentage Change Latest Month From Previous Month	
	May 1958	April 1958	May 1957	Month 1958	Month 1957
Michigan	164.4	167.1	178.6	-1.6	-8.0
Detroit	166.0	169.0	181.8	-1.8	-8.7
Michigan Excluding Detroit	158.0	158.6	165.4	- .4	-4.5

INDEX OF BANK DEBITS²

Michigan	196.4	199.5	209.2	-1.6	-6.1
Detroit	198.3	201.8	212.9	-1.7	-6.8
Michigan Excluding Detroit	188.8	189.4	193.7	- .3	-2.5

INDEX OF RETAIL SALES³

	April 1958	March 1958	April 1957		
Michigan	157.2	154.1	162.2	+2.0	-3.1
Bay City	161.9	161.4	162.9	+ .3	- .6
Detroit	153.4	150.9	163.5	+2.3	- .7
Flint	191.9	184.5	188.4	+4.0	+1.8
Grand Rapids	156.3	154.4	157.7	+1.2	- .9
Lansing	164.0	161.1	158.9	+1.8	+3.2

¹Bank Debits adjusted for seasonality and price change.

²Seasonally adjusted; basic data from Federal Reserve Banks of Chicago and Minneapolis.

³Seasonally adjusted; basic data from Michigan Department of Revenue.

